

STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD

PUBLIC MEETING

APRIL 18, 2001

1:00 P.M.

HELD AT
DEPARTMENT OF SOCIAL SERVICES
744 P STREET
SACRAMENTO, CALIFORNIA

REPORTED BY:

ESTHER F. SCHWARTZ
CSR NO. 1564

CAPITOL REPORTERS (916) 923-5447

1 APPEARANCES

2 BOARD MEMBERS:

3 KARI LYNN DOHN
4 BRUCE G. WILLISON

5 STAFF:

6 GARY C. HEATH, EXECUTIVE DIRECTOR
7 ERIK N. SALTMARSH, CHIEF COUNSEL

8 CATHERINE GEORGE

9 POWER EXCHANGE:

10 GEORGE SALDOJE
11 JOSEPH A. EISENBERG

12 CALIFORNIA ISO:

13 RICHARD JACOBS
14 CHARLES ROBINSON
15 PHIL LEIBER
16 KEITH CASEY
17 TOM SIEGEL

18 ---oOo---

1 SACRAMENTO, CALIFORNIA

2 WEDNESDAY, APRIL 18, 2001, 1:00 P.M.

3 ---oOo---

4 MEMBER DOHN: Good morning. I would like to call this
5 meeting to order, and we'll start with the first item on the
6 agenda, which is approval of the minutes from last week.
7 Motion to approve minutes.

8 MEMBER WILLISON: Madame Chair, I would move approval
9 of minutes.

10 MEMBER DOHN: All in favor.

11 All opposed.

12 The minutes are approved.

13 For those that have the agenda, we are going to skip
14 around a little bit. We are going to move from Item 1 to
15 Item 4, which is the consideration and possible appointment
16 of Mr. Michael Kahn as chair of the California ISO.

17 Do we have any comments? I think we had comments last
18 time.

19 MEMBER WILLISON: We had comments last time, and we
20 sent him off with our closing, so I will at this point move
21 that the EOB appoint Michael A. Kahn as the chairman of the
22 California Independent System Operator corporation.

23 MEMBER DOHN: I will second that.

24 Any discussion?

25 All in favor.

CAPITOL REPORTERS (916) 923-5447

3

1 Opposed.

2 Michael Kahn is the chair of the ISO.

3 Turning then to agenda Item 5, which is consideration
4 and possible approval of the amendments of the bylaws to
5 conform with AB 5X.

6 Do we have a report by EOB staff on this?

7 MR. HEATH: Yes, we do. Catherine George is from EOB
8 legal staff and Mr. Rick Jacobs from the ISO will also be
9 representing ISO in that matter.

10 MS. GEORGE: Good afternoon.

11 The information you have before you contains 16 sets of
12 amendments to the ISO bylaws that were analyzed, identified
13 to us by the ISO and then analyzed by us as law to determine
14 whether to bring the bylaws into conformance with AB 5X. At
15 the last board meeting the ISO directed to review corporate
16 documents and identify any changes necessary to conform its
17 bylaws and/or articles of incorporation.

18 At the ISO's last meeting last Thursday they approved
19 the amendments that you have before you. And according to
20 their bylaws, now they must be approved by the EOB and then
21 forwarded for acceptance. I don't know if you want me to go
22 through each item or if you had a chance to look at them,
23 what your preference is.

24 MEMBER WILLISON: I've had a chance to go through them,
25 and they all seem like they do what they are purported to

1 do, basically conform to the new law.

2 MEMBER DOHN: Does the ISO -- has the ISO similarly
3 gone through this and do you have, any ISO staff, does it
4 conform to what ISO did last week?

5 MR. JACOBS: Yes, Madame Chairman. The bylaws in our
6 view do conform now to the provision in AB 5X. We did a few
7 small tweaks in the original version presented to make sure
8 it conforms.

9 THE COURT REPORTER: I will need you to identify
10 yourself for the record, please.

11 MR. JACOBS: Richard Jacobs, Senior Corporate Counsel,
12 California ISO.

13 MEMBER DOHN: I actually just had two real -- actually
14 one short question, and that is in the written material it
15 does say that with the exception to one of the
16 modifications, it is EOB's opinion that they bring it, ISO
17 bylaws, into conformance. I just wanted to ask about the
18 one exception.

19 MS. GEORGE: Yesterday you should have received an
20 update. Perhaps didn't. It was faxed in the afternoon.

21 MEMBER DOHN: I was out of the office.

22 MS. GEORGE: There was a provision that was considered
23 by ISO Board at its Thursday meeting, last meeting, that
24 contained a phrase "for such time as California is the only
25 participating state." That phrase was not necessary to

1 conform the bylaws to AB 5X and the ISO Board deleted that
2 phrase from that provision.

3 However, there is another provision to the bylaws where
4 that same phrase appears. And it was not clear to me at
5 that time whether they had actually deleted the phrase in
6 each of the instances in which it appeared. I got that
7 clarification yesterday that that was their intent. So that
8 modification is no longer applicable.

9 We recommend that you approve the entire set of bylaws
10 as contained in agenda Item 5 and its update.

11 MEMBER DOHN: That is helpful. Thank you for answering
12 that. I read through these and believe they do conform with
13 the ISO.

14 MEMBER WILLISON: Therefore, I move that the
15 Electricity Oversight Board approve the amendments as
16 submitted in Item 5.

17 MEMBER DOHN: Second that.

18 All in favor.

19 All opposed.

20 The bylaws have been so amended.

21 MS. GEORGE: Thank you.

22 MEMBER DOHN: All right.

23 Then if we could perhaps jump back up to Item No. 2,
24 which is management report by the EOB staff.

25 MR. HEATH: Thank you, Madam Chairmember.

1 Gary Heath, Director of the EOB.

2 What you have in your binders today, basically, the
3 current tally, if you will, of expenditures by the Board in
4 this current fiscal year. Right now what we are looking at
5 if we stay on our spending track that we likely will have an
6 excess of \$700,000 to return to the general fund this next
7 year. That assumes, though, we have no additional
8 litigation expenses that we need to bring outside counsel
9 on, as well as any other special reports that may be
10 required. But that is what the track is on right now. And
11 we will be providing another report to the Board at its next
12 meeting sort of at the end of the year, a view of our budget
13 and going forth.

14 Associated with the budgets, EOB's budgets are up for
15 consideration by the Senate and Assembly subcommittees.
16 They will begin next Tuesday and Wednesday. They will be
17 meeting in the next few days with leg staff on our budgets.
18 If we have anything to report back, any proposed changes or
19 problems that we are having, we will do that immediately and
20 keep you apprised of our progress in the process.

21 The other matter from the management report is dealing
22 with legislation. A bill that specifically is for the
23 Electricity Oversight Board and the ISO has to do under Bill
24 AB 83X, this is the implementation of the Governor's
25 Executive Order D-23. In that order EOB in consultation

1 with the ISO is to establish outage standards for
2 generation.

3 We have had several meetings with the ISO. The ISO is
4 not opposed to public stakeholder meetings on that, and they
5 are moving forward rapidly with proposed changes in the
6 tariffs of the ISO to implement the scheduling of outages
7 and establishing standards. Our intent, I believe, is to
8 have those tariffs approved, amendments approved, within the
9 time period in May and out by the ISO and back to EOB for
10 approval of as appropriate.

11 MEMBER WILLISON: Can I ask? In those public meetings
12 was there a wide range of views as to what was appropriate
13 standards?

14 MR. HEATH: Yes. They ranged from there should be no
15 standards to there should be very strict performance
16 standards. It's been quite a range. Nevertheless, the work
17 that is going on, there is a desire pretty much on the part
18 of the industry, including the municipal community, to work
19 with the state on developing those standards. It is a very
20 important issue for the administration and the state, and
21 they are responding in that regard to those standards.
22 Once we move into that realm, having the tariffs in place,
23 we would still have, if this bill was to pass, I believe it
24 is on urgency, then we have to open up a proceeding for some
25 level of rulemaking by this Board to actually adopt specific

1 regulations and rules related to those standards. And we
2 would be referring that back to the Board at the next
3 meeting, what that process would be.

4 We also have a ways to go with this bill. We are
5 working with the Public Utilities Commission on some of the
6 language. There is a similar bill on the Senate side, but
7 basically tees up the PUC to be the lead in this, AB 83X
8 picks up the lead while working this out. We will report
9 back to you.

10 The other bill I want to just bring to your attention
11 is the piece of federal legislation that on a little bit of
12 probably energy emergency measures. This bill, from our
13 perspective and our comments back to administration, the
14 coordinating responses, the bill is fraught with many, many
15 problems. In particular, I think in a nutshell it takes
16 away a lot of state authority, everything from transmission
17 siting to dealing with generation issues that we believe are
18 state matters, and at this point we are opposed virtually to
19 every section of that bill except for the setting of
20 daylight savings time.

21 MEMBER DOHN: And you are tracking this?

22 MR. HEATH: Absolutely tracking, right.

23 I believe at this point, that concludes the items that
24 I wanted to bring to your attention today.

25 MEMBER WILLISON: Question, Gary, on the underspending

1 on head count. Is that because of a change in focus or
2 because you haven't been able to hire the individuals you
3 needed to consider?

4 MR. HEATH: We have had a difficult time finding
5 individuals to fill the positions that we need to put on the
6 market analysis that we are doing. We have been ongoing
7 trying to find counsel in terms of those who are qualified,
8 particularly for the work that we are doing. It is just a
9 process of finding good people, and doing this in the
10 environment that we work under it is even harder.

11 MEMBER WILLISON: The reciprocal question with regard
12 to data processing?

13 MR. HEATH: At this point all of that we -- could you
14 be more specific on that?

15 MEMBER WILLISON: Just the increase, significant
16 increase, in data processing.

17 MR. HEATH: That was a refocusing of our two things,
18 actually three things. One is that we are working on a new
19 information system at EOB on energy information, which we
20 were utilizing the services of the Energy Commission,
21 however, having our own service put in, both
22 internal/external access.

23 It is basically we are going out on our own and not
24 relying on the other agencies for that kind of service.
25 Also, because of the data that we actually are getting now

1 through our various proceedings, such as our subpoenas that
2 we issued for the ISO and PX, we are getting volumes of data
3 that we need to process. So we are having systems that are
4 being designed to handle that information as it comes in.

5 As I said earlier, we also have access to new
6 information bases that we have subscriptions to that give us
7 pricing reports, broken data on electricity, not just here
8 in California but nationwide. We are building up our own
9 data; that is why you saw that extra expenditures in this
10 budget so we can handle all, do more monitoring and
11 marketing analysis.

12 MEMBER WILLISON: Thank you.

13 MEMBER DOHN: Thank you.

14 MR. HEATH: That concludes our report.

15 MEMBER DOHN: We will move on to Item No. 3, the Chief
16 Counsel's report.

17 MR. SALTMARSH: Thank you, Madame Chair.

18 As I think Mr. Heath implicated, we are in nonroutine
19 times, and looking at the list of matters, both in
20 administrative litigation and in judicial litigation,
21 including bankruptcy proceedings on which we could try to
22 give you update reports, I decided that that list, if I
23 tried to make it comprehensive today, would probably run
24 into several hours and is, as a matter routine course in
25 this meeting and over the next several, best handled through

1 periodic staff reports to you directly.

2 In terms of updates since we have last had the Board
3 meet on matters at the highest level, I will report to the
4 Board that we have received an order that concludes one of
5 the appellate judicial proceedings, albeit probably an
6 interim resolution on that subject.

7 The case that was termed Western Power Trading Forum
8 versus Federal Energy Regulatory Commission, the judicial
9 appeal in the District of Columbia Circuit of the FERC's
10 order that had at that time resolved the dispute between the
11 State of California and the Federal Energy Regulatory
12 Commission on a settled governing structure for the
13 Independent System Operator, was subject to appeal by
14 Western Power Trading Forum. The Court dismissed that case
15 fundamentally, resolved it against the Western Power Trading
16 Forum on the issue that the piece of statute, then SB 96,
17 that reflected the settlement and the Trading Power Forum
18 was appealing the FERC order on has now been mooted by
19 California's subsequent new revision of the California
20 Independent System Operator governing board structure. We
21 no longer have a judicial appeal that is challenging the
22 structure of the ISO governing board because it has been
23 restructured more recently than the most recent appeal.

24 I would suggest that we already have a couple of items
25 before the FERC on unrelated matters that are, in

1 particular, one Coral Power, et al., brought a challenge to
2 some recent comments that were filed by the Independent
3 System Operator on the basis that they are questioning
4 whether the Independent System Operator as governed is in
5 compliance with FERC rules and, therefore, can make comments
6 before the FERC, and so I anticipate we may see another
7 round of challenges by third parties to the current maximum
8 ability structure.

9 Other than that, I believe we have one bankruptcy
10 status report that is going to come before the Board further
11 down what's a crowded agenda in a busy day. I will leave
12 other matters that are before, particularly the FERC,
13 Federal Energy Regulatory Commission, unless we have
14 questions to be included in staff reports on a routine
15 basis.

16 MEMBER DOHN: You would suggest that in the future as
17 these cases progress you will do updates?

18 MR. SALTMARSH: Absolutely. We will continue to
19 include them in routine updates. If there are major matters
20 that we think warrant policy discussion, we will come before
21 the Board.

22 MEMBER DOHN: Thank you.

23 We will move on to Item No. 6.

24 MR. SLADOJE: Good afternoon.

25 I am George Sladoje, the CEO of the California Power

1 Exchange, and with me is Mr. Joe Eisenberg, our counsel from
2 Jeffers, Mangels, Butler & Marmaro of Los Angeles, our
3 bankruptcy counsel. We are going to give just a short
4 report on what is going on with the status of our bankruptcy
5 proceedings.

6 Before we start, I would just like to refresh before I
7 turn it over to Joe on exactly how we got here and why
8 California Power Exchange is in bankruptcy.

9 We received an order December 15th from Federal Energy
10 Regulatory Commission which was devastating to our future.
11 In effect it stated that IOUs were to match their own load
12 and not sell to the Power Exchange. We had to implement a
13 \$150 break point, because we were to go out of business by
14 April 30th. We sought a rehearing on an emergency motion
15 for stay prior to the end of the year; we didn't get it.

16 So, we concluded sometime fairly early in January that
17 in the best of all worlds if we were to maintain some
18 scheduling coordination function that we would probably end
19 up losing \$20,000,000 plus in the year 2001. So on January
20 18th our board voted to begin an orderly wind down of
21 operations. Of course, on the 18th we had a default in the
22 marketplace and shortly thereafter we had to suspend two of
23 the IOUs in our marketplace.

24 MEMBER WILLISON: Can I ask a question, just
25 clarification?

1 Remind me, was the FERC order that said that they
2 couldn't sell to the Power Exchange or weren't required to
3 sell?

4 MR. SLADOJE: The FERC order actually as far as selling
5 said they were no longer authorized to sell generation to
6 the Power Exchange. It went farther than just doing away
7 with mandatory buy and sell. We actually appealed that
8 Ninth Circuit unsuccessfully, by the way.

9 Anyway, at this point, toward the end of January, we
10 had planned to operate a market for a couple more months,
11 probably until we could liquidate block forward contracts to
12 satisfy defaults and so on, negotiate with vendors an
13 orderly wind down and so. But on January 29th we received
14 notice from FERC telling us that we were in violation of the
15 Federal Power Act because we had not implemented the \$150
16 break point. We had argued with FERC that we were unable to
17 implement it in the time they wanted. And so at that point
18 our board voted to suspend all trading on the Power Exchange
19 effective January 31st.

20 From that point on we attempted to avoid bankruptcy.
21 We were working with the Governor's office. There was a
22 fear that if we declared others might follow and so on.
23 What then followed was a whole string of lawsuits, TROs,
24 probably numbering more than about two dozen, from literally
25 all over the country requiring us to make court appearances

1 in Ohio, California and elsewhere. We just could not keep
2 up.

3 So on March 9th we filed for bankruptcy, more than
4 anything else to consolidate all of these different goings
5 on. Right now our plan is to continue doing our regular
6 settlements processing, which, as you know, requires work to
7 go on 90 days plus after a transaction occurs since we had
8 some early in February, our block forward markets, some
9 scheduling coordination activity then. We will be settling
10 -- we will be doing some settlement billing work the first
11 week or two of May. We are now down to 37 employees from
12 122. We anticipate sometime in June of getting down to a
13 hard core of maybe 15 to 20. There are some unknowns here
14 that we are going to have to deal with. We just don't
15 know. Some of it has to do with the Federal Energy
16 Regulatory Commission and the issue on chargebacks and
17 recalculations of prior trades. There is litigation going
18 on and also we've got a whole host of information and data,
19 all of the bits since March 31st of 1998 that needs to be
20 safeguarded as part of ongoing audits, investigations,
21 hearings, and probably litigations, and so on.

22 We can touch on this a little bit more after Joe kind
23 of gives you an update as to what is going on from a legal
24 standpoint, how the proceedings have gone.

25 MR. EISENBERG: Thank you.

1 As George mentioned, my name is Joe Eisenberg. I am
2 the bankruptcy specialist from Los Angeles and I have the
3 privilege of serving as bankruptcy counsel to the PX.

4 On March 9th, as a result of a number of issues, some
5 of which George has highlighted, the PX elected to and did
6 commence proceeding under Chapter 11 of the federal
7 Bankruptcy Code in the United States Bankruptcy Court for
8 the Central District of California. The case has been
9 assigned to Erithe Smith who serves as bankruptcy judge in
10 this matter. And the PX has continued to function as a
11 debtor in possession in the Chapter 11 case. No trustee has
12 been appointed, and management of the PX by bane of the
13 bankruptcy court continues to operate the business of the PX
14 on a day-to-day basis subject to the oversight of the
15 federal bankruptcy court and adjunct of the Department of
16 Justice known as the Office of United States Trustee.

17 The focus of the Chapter 11 case has essentially been
18 twofold. Number one, when the PX was up and operating, the
19 infrastructure that was created was substantial both in size
20 and expense. When the market functions of the PX
21 terminated, the PX was burdened with substantial contractual
22 obligations on a go forward basis, and various and assorted
23 creditors who were parties to these expensive contractual
24 arrangements insisted upon timely payment or threatened
25 litigation and the cessation of necessary services. Chapter

1 11 allowed for the elimination of redundant costs, the
2 reduction of overhead commensurate with ongoing functions of
3 the PX.

4 The second area that the Chapter 11 is beneficial is in
5 the area of litigation. PX, as George mentioned a moment
6 ago, was party to litigation in various state courts,
7 federal courts and administrative proceedings. The effect
8 of the bankruptcy is to suspend many of these pieces of
9 litigation and to allow for a channeling of the litigation
10 through the bankruptcy proceeding into a single forum. So
11 rather than confront the same issues in many different
12 venues, the bankruptcy does allow for, I won't use the word,
13 "consolidation" in a technical sense but in the generic
14 sense, the consolidation of these kinds of issues and claims
15 and the resolution of these claims in one place. That place
16 may be the bankruptcy court. It may be the United States
17 District Court. It may be FERC. It may be a particular
18 state court. But it does allow for the shepherding of this
19 litigation and control and hence the control of costs
20 associated to litigation.

21 In the Chapter 11 case the office of United States
22 Trustee has appointed a representative committee of nine
23 entities to serve as the representative of all of the
24 participants. Much of the dialogue between the PX and the
25 participants takes place through the committee to deal with

1 the collective interests of all the participants. The
2 collective interests of the participants deal with things
3 like the commandeering question, "How is that going to be
4 handled? Who will effectively represent the interests of
5 the participants in that litigation? Where will it occur?"
6 It is the subject matter of proceedings before federal Judge
7 Hatter in Los Angeles. It is the subject matter of
8 proceedings before the Victims Compensation Board. It is
9 the subject matter of other legal proceedings. Who is the
10 real party in interest? Who should be handling the
11 resolution and the prosecution of commandeering litigation?

12 MEMBER WILLISON: Can I ask the makeup of those nine?
13 Are those mostly generators? What is the mix?

14 MR. EISENBERG: They are all generators, none of the
15 IOUs is a member of the participants committee.

16 MR. SLADOJE: Probably the APX is the only
17 nongenerator, I would say.

18 MR. EISENBERG: In addition, the Office of United
19 States Trustee has, as is common in most Chapter 11 cases,
20 appointed a representative committee of creditors, that is
21 nonparticipant creditors. And the tension in this Chapter
22 11 case, the underscore of the whole process, is the tension
23 between the unsecured creditors who have no continuing
24 interest in the affairs of the PX or what the PX actually
25 does. They are simply vendors of goods and services to an

1 entity that hasn't paid for those goods and services or who
2 may default on contracts.

3 From the perspective of creditors they would just as
4 soon see the PX turn off its lights and then divide pro rata
5 the funds on hand. The participants on the other hand have
6 a significant continuing need for the PX to provide services
7 to complete the settlement functions, to do calculations and
8 recalculations that are ordered by FERC, to provide
9 information that is responsive to requests of individual
10 participants. And so as I mentioned, the tension is that
11 the operation is really being conducted, as the creditors
12 see it, for the benefit of the participants. But the
13 creditors are paying for it by allowing cash on hand to be
14 consumed without concomitant benefit to the creditors.

15 George and his people have been working and the lawyers
16 have been working to try to bridge this gap and harmonize
17 the tension, and we are getting close. We are in
18 discussions with representatives of the committee and
19 various participants about allocating funds for the benefit
20 of trade creditors and having ongoing costs be funded by
21 participants. Services rendered for participants to be
22 funded by participants.

23 MR. HEATH: Question in terms of the funds themselves.
24 What revenues or what funds is the Power Exchange utilizing
25 to pay its employees as well as counsel and others? How is

1 that being taken care of?

2 MR. EISENBERG: At the time of the filing of the
3 Chapter 11 case there was on hand approximately \$20,000,000
4 of what I call PX funds; that is funds generated in the
5 past from the normal business operations of the PX. Those
6 are the dollars that are being utilized to pay the rent, the
7 payroll, the ongoing operating expenses. In addition, the
8 PX presently holds in a custodial -- in a series of
9 custodial accounts approximately \$230,000,000 of moneys that
10 are to be allocated based upon how FERC does its ultimate
11 rulings or some court of competent jurisdiction makes the
12 determination to be allocated among the participants.

13 There was a hearing in federal court recently at which
14 the federal court directed that moneys that PG&E had paid
15 over to the ISO should in turn be paid over by ISO to the
16 PX, and those moneys will then again be segregated. So the
17 PX will be holding slightly north of \$400,000,000 of
18 participant funds in addition to the operating funds. It is
19 the participant funds that the participants are looking to,
20 whether it is the income derived from that or just the
21 invasion of that principal in order to support the necessary
22 functions of the PX for the benefit of the participants.

23 The Chapter 11 case has an extraordinary complexity
24 associated with it. First, it is a complex case anyway.
25 This is not a cookie cutter Chapter 11 case. This is not

1 your normal entrepreneurial business structure with
2 shareholders and creditors. You have parties in interest in
3 the bankruptcy proceeding who are different than normally
4 found in bankruptcy cases in the absence of an equity
5 interest, that is an ownership interest, that stands at the
6 table and asserts an interest.

7 The case is hard enough. You overlay the case with the
8 PG&E bankruptcy case, and we are now, as are the PG&E
9 lawyers, trying to figure out how to harmonize these two
10 bankruptcy cases where injunctions are in effect as a matter
11 of bankruptcy law arising automatically when a bankruptcy
12 case is filed. Creditors and other parties in interest are
13 enjoined automatically by operation of law from interfering
14 with the assets of the Chapter 11 debtor.

15 While PG&E contends that certain assets belong to it,
16 for example the block forward contracts; we contend they
17 belong to us. So now we have competing bankruptcies and
18 competing injunctions and competing visions as to what takes
19 precedence and how to harmonize. So the complexity of a
20 bankruptcy case is compounded by the complexity of the
21 nature of this case and then exponentially increased by the
22 effect of the Chapter 11 case of PG&E.

23 We have had a series of hearings in the bankruptcy
24 proceeding. Like most well-run bankruptcy cases what goes
25 to the Court is only the tip of the iceberg. The real

1 activity isn't visible to people on the outside. The
2 hearings that have been in the bankruptcy court have been
3 administerial that relate to the right to segregate cash,
4 maintain cash management systems, pay employees, to
5 compensate employees with retention bonuses to ensure that
6 the critical mass of people necessary to perform the
7 function of the PX are there, given the seize mentality of
8 any Chapter 11 situation that we don't lose critical people.
9 We want to make sure they are there.

10 What is going on below the waterline is the dialogue
11 with the participants and their representative committee and
12 with the unsecured creditors and their representative
13 committee. The people at the PX have done a remarkable job
14 from a business point of view in holding it together. In
15 operating under adverse circumstances, of implementing
16 major, major reductions in the carry cost of the enterprise.

17 The burn rate would be -- the burn rate is not
18 unstable, but the burn rate would be unacceptable if George
19 and his staff had not been able to go to critical vendors
20 and contracting parties and negotiate and implement
21 significant reductions in the carry cost of the enterprise.

22 It is early in a bankruptcy case. The case is five
23 weeks old, to give any long-term vision. We began the
24 Chapter 11 case with the intention of implementing an
25 orderly wind up; that was the goal. Market functions were

1 over. The contracts were going to get settled and resolved.
2 The debits and credits put on the table. The money
3 allocated among the participants as determined. We would
4 turn out the lights some day. Cash that was available would
5 be distributed to parties entitled to it, whether it was a
6 matter of bankruptcy law or otherwise. That would be the
7 simple way to do it.

8 This is a dynamic situation. FERC has made certain
9 rulings. Those rulings require, for example, the default
10 charge back ruling of two weeks ago, require recalculations
11 of calculations that had taken time and machinery and
12 software to do in the first instance. FERC has issued
13 certain rulings and requested additional information that
14 require further recalculations. So the goal line as to when
15 we could complete the wind up seems to be moving forward.
16 Just keeps getting pushed out. We don't have a specific
17 date. Lynn Miller, who is the Chief Financial Officer, is
18 looking at what is going to be necessary to comply with
19 certain rulings and orders of FERC and requests of FERC that
20 I referred to, and we just don't have that timeline. We are
21 doing this collaboratively with the participants so that
22 they understand what they need and what service we have to
23 provide for them.

24 There is an ultimate issue that we need to come to
25 grips with, and that is there is a massive quantity of

1 information. That massive quantity of information needs to
2 be preserved and made available to people who need to access
3 it. And the real question that we are trying to deal with
4 in long-term vision is what is life after PX. What do
5 people need, what do participants need, what do regulators
6 need, what does the state need, and how will we preserve
7 that data and make it accessible to people who need access
8 to it.

9 That is the short version of the bankruptcy. If there
10 are questions I would be pleased to respond.

11 MEMBER WILLISON: Two questions. First of one, it is
12 naive, I guess the layman question with legality. The
13 generator has sold to the PX which then provided electricity
14 to the ISO. Can the generator look through the PX to the
15 recipient, the beneficiary, and take legal action there if
16 they are unsatisfied with the PX?

17 MR. EISENBERG: Our position is no, that is what you
18 have a market for. They sold into the market. They bought
19 out of market. Debits and credits are to be resolved in the
20 context of the market, now the Chapter 11 case.

21 MR. SALDOJE: The transactions were with the Power
22 Exchange, not with the specific buyer.

23 MR. EISENBERG: My understanding is that the
24 marketplace itself was to anonymous. That even compounds
25 the normal debits and credits resolution in the context of

1 this bankruptcy.

2 MR. HEATH: Can you describe a little bit more in
3 terms of the volume of data and what form it is in? Do you
4 have any sense that that -- can you give the Board a sense
5 of what we are actually talking about?

6 MR. SALDOJE: We have what is called a data warehouse
7 where we keep all of the trading data and record of
8 transactions and so on. Physically, what is this comprised
9 of? I don't know. If we were to maintain operating that
10 data warehouse with the proper technical assistance and with
11 the number of people we need, probably talking about
12 spending some \$50,000 a month at least.

13 We also have a financial warehouse that has a lot of
14 the settlement data that goes along with the transactions
15 that are in the data warehouse. That is another substantial
16 sum of money. We right now -- I guess today we are trying
17 to finish up exactly, this week exactly, what the bare-bones
18 cost would be to maintain those the way they need to be
19 maintained. I can give you some idea, probably \$50,000 for
20 the data warehouse, probably 20- or \$25,000 for the
21 financial warehouse. We are talking about that kind of
22 thing which involves in each case one or two full-time,
23 technically oriented employees and probably another
24 compliance-type individual who is familiar with tradings.
25 Another person familiar with settlements process. So we are

1 talking about three or four people as well as maintaining
2 the data.

3 MEMBER WILLISON: That is included in the cost that you
4 gave us?

5 MR. SLADOJE: Right.

6 MEMBER WILLISON: Not just the storage?

7 MR. EISENBERG: What we are doing now at the request of
8 the PX is putting together a budget, a cash flow projection
9 which essentially is two components, one through the middle
10 of the year where we still have ongoing active functions
11 with respect to the settlements of contracts and
12 recalculation based upon FERC ruling. The second is through
13 the end of the calendar year in kind of a wind down service
14 bureau phase for the benefit of these participants.

15 MR. SLADOJE: We will have a pretty good handle on that
16 by the end of this week.

17 Gary, I will talk to you by early next week.

18 MR. HEATH: I appreciate that.

19 Couple of other brief questions.

20 The wind down was scheduled to be concluded based upon
21 the final billings that were coming in, and that was
22 supposed to go to settlement basically looking towards the
23 end of May.

24 MR. SLADOJE: Right.

25 MR. HEATH: And what counsel said, that because of the

1 information request coming out of FERC and others, that that
2 is being pushed back. Basically you can't wrap it up. FERC
3 is aware, you advised FERC that because of those kinds of
4 requests that are sitting out there that you are going to
5 have to maintain some sort of PX to respond to those
6 requests?

7 MR. SLADOJE: They are aware of our status and they are
8 aware that we are making every attempt to cut costs and get
9 out of there as soon as possible. Frankly, I don't think
10 that's made a big impression on their timetable and their
11 requirements of us.

12 MR. EISENBERG: Let me put a footnote on that.

13 For example, the recent FERC ruling required that a
14 hundred days hence the PX file a very detailed report
15 containing a lot of information. If the PX were in full
16 stride and had all of its resources and all of its
17 personnel, that is a report that could be generated and
18 timely filed. Although the FERC is aware of our current
19 significant reduction in size and manpower, personnel, that
20 they still want us to produce these kind of reports and
21 information.

22 MR. SLADOJE: The 100 days would run to the middle of
23 July sometime.

24 MR. HEATH: Associated with that, this data right now
25 is, I assume, being protected under the Federal Power Act

1 and tariffs of the Power Exchange. Once the Power Exchange
2 is no longer, what happens to that protectiveness of that
3 data? Where does that go? How is that still protected or
4 is there a chain here of the Federal Power Act basically
5 still being latched to that data and it's being
6 confidential? What thought has been given to that?

7 MR. EISENBERG: A lot of thought, no answers.

8 What we are trying to figure out is what, as I said a
9 moment ago, what is life after the PX all about? Will we
10 turn the data over to some other entity or agency? Will we
11 create out of the ashes of the PX a Phoenix of service
12 bureau of three or four, ten people that are available? We
13 just don't know. That is what the staff and counsel are
14 trying to develop now, and with the participants because it
15 is their need. What can we do to preserve the data? What
16 can we do to make it available to people? How can we
17 protect it?

18 We should have relatively soon some responses to that,
19 but at this point we just don't.

20 MR. SLADOJE: By the way, it is not just the
21 participants committee, it is other participants including
22 the IOUs concerned about that.

23 MR. HEATH: Anyone trying to secure that data that is
24 not a government entity?

25 MR. EISENBERG: There have been requests for

1 information from individual participants, and that is -- we
2 expect, for example, that there may be further litigation
3 among participants. They're going to want that data. They
4 already have forewarned us. They have asked us to make data
5 available to them in connection with the assertion of claims
6 in the PG&E bankruptcy case. There is a continuing
7 individualized series of requests, and I think they will
8 increase as time goes on, new claims and new theories and
9 new lawyers develop in this.

10 MEMBER WILLISON: I would like to state for the record
11 the sense of the Board that the staff of the EOB pay
12 particular attention and investigate all measures necessary
13 to ensure the interest of the EOB in that data is protected
14 as well.

15 MR. HEATH: You bet.

16 MR. EISENBERG: If anyone has any questions later on,
17 Mr. Heath and I have already spoken previously, please don't
18 be shy, contact me. We'll try to get you information and
19 answers to questions.

20 Thank you.

21 MEMBER WILLISON: Thanks.

22 We understand the challenge and appreciate the efforts
23 and leadership and manage to really just help that issue.

24 MR. EISENBERG: Thank you.

25 MEMBER WILLISON: Item 6B on the agenda is a report

1 from the Independent System Operator.

2 MR. HEATH: This bulletin, as counsel comes forward on
3 that, what we are -- because the uncertainty of the
4 bankruptcy of PG&E and the other problems California faces,
5 that we know that the ISO itself does not have its own
6 money, if you will. We were very concerned and wanted to
7 report to the Board as to the status of the financial
8 condition and sort of what can be done with that and what is
9 bankruptcy with any other utilities and also to get an
10 understanding of this since it was filed. It was not on our
11 original agenda, that the bankruptcy of PG&E had, in fact,
12 occurred and that was not factored into our reports at this
13 time. We wanted to make sure that the Board was fully aware
14 of what the implications are there and to tell us.

15 MEMBER WILLISON: Great.

16 Welcome back.

17 MR. ROBINSON: Thank you.

18 My name is Charles Robinson. I am vice president and
19 general counsel for the ISO. This is Phil Leiber, who is
20 the treasurer for the ISO. Phil will give the current
21 financial condition of the ISO, and I will have some
22 comments about the impact of the PG&E bankruptcy on the ISO
23 operation.

24 MR. LEIBER: We distributed a six-page presentation. I
25 am going to walk through this relatively quickly. You are

1 welcome to break in with questions along the way. I want to
2 just give you a sense for our revenue picture, our expenses
3 to date, and what your expectations would be going forward,
4 and just touch on some of the uncertainties of the recent
5 events and events that are likely to happen in the next
6 couple of months will likely happen in our finances.

7 On the first page you will see a chart that illustrates
8 our revenues. To date our revenues have exceeded our
9 budget. They have not been adversely impacted by the events
10 that have taken place so far with the PX bankruptcy or with
11 PG&E's bankruptcy. It's likely there will be an impact to
12 these events. The next collection of revenues upcoming at
13 the end of this month are likely to see the first impact on
14 that. While our revenues to date have been above
15 budget, there is significant uncertainty that we perceive in
16 the next couple of months.

17 MEMBER WILLISON: That is because of the one party,
18 basically?

19 MR. LEIBER: It really goes beyond that, but that is
20 expected to have the largest impact at this time.

21 Our revenues are collected from both users of power and
22 suppliers as well. On the users we have the PG&E bankruptcy
23 that for the months of February and March, because those are
24 prepetition amounts owed to us, we are likely to receive
25 those until after resolution of the bankruptcy.

1 Southern California Edison to date over the past couple
2 months has not paid our administrative fees. There may be
3 reason to believe that they will resume doing so in that
4 they have reached agreement on the sale of their
5 transmission. But we will wait and see there.

6 As far as the revenues we collect from the generators,
7 they have taken the position that so long as we owe them
8 money they don't feel it's in their interest to send money
9 to us.

10 MR. ROBINSON: There are a couple things to be said
11 about that. I think we are looking at our legal options. I
12 believe that type of right of offset is not provided for in
13 the tariff. So we are looking at our legal options with
14 respect to the generators.

15 MR. LEIBER: The tariff does provide a number of
16 protections to ensure that the ISO does receive the revenues
17 it needs to operate. A lot of those options may be tested
18 in these times.

19 Turning to the second page, we've just got a brief
20 chart of our expenses. Our expenses have to date been
21 running a bit below our budget. This is primarily due to
22 savings in head count area, particularly budgeted to have
23 all of our staff on board after January 1st. We haven't yet
24 reached that point. Going forward, however, we do
25 anticipate a number of unbudgeted expenses that are likely

1 to absorb those savings and some significant items that
2 foresee litigation expenses beyond what we had budgeted. We
3 have a number of WSCC fines that have well exceeded our
4 budget and are likely to continue to accrue, although we
5 have taken action to seek a waiver from those fines in the
6 new circumstances we find ourselves in.

7 Bankruptcy response was, of course, not anticipated
8 when this budget was developed last summer. There are, of
9 course, a number of other foreseen expenses that we are
10 having to confront.

11 Moving to the second slide on this chart, this covers
12 our total revenue requirement. The only difference between
13 this and our O&M budget is the effect of debt service. I am
14 going to touch on that issue later. But because of the
15 financial uncertainty that we are seeing in the industry
16 right now, we are being penalized. We are capitalized
17 entirely with debt and a large portion of that debt is
18 variable rate demand bonds. These have to be resold to
19 investors every week. They are charging us substantial
20 premium to hold onto that at this time.

21 Turning to Page 3, we have an overview of our capital
22 budget. We have anticipated spending roughly \$38,000,000 in
23 2001. That was to be funded primarily from a bond issuance
24 that we had intended upon executing early this year.
25 Obviously, that has not been possible given the

1 circumstances. And because of that, we are facing
2 constraints. We have accordingly reset our expectation of
3 how much we will need to spend this year. Currently we are
4 looking at about 24,000,000 in capital budget. We think at
5 this time that will allow us to fund the absolutely critical
6 projects. But we have for the most part allocated that full
7 amount so far. If other capital projects are needed over
8 the next several months, we really don't have a source of
9 funding for those at this time.

10 Without the bond issuance we've had to utilize other
11 funding sources, primarily our operating reserve, which I
12 will cover later on. That's essentially our rainy day fund.
13 And to the extent we use it here, it is not available for
14 other unforeseen circumstances. We are putting a lot of
15 stress in our finances due to this and other factors.

16 The final chart on Page 3 illustrates that because of
17 the uncertainty bond holders are requiring substantially
18 higher interest rates to hold our debt. In the past we have
19 recognized a nice savings from other municipal-type bonds.
20 Our bond rate has been substantially low. Now we are
21 substantially above that, and as long as these conditions
22 exist, we are spending at least another million dollars a
23 month in interest expenses that were not budgeted.

24 Page 4 highlights the operating reserve. Again, this
25 is our rainy day fund that was originally intended to absorb

1 unforeseen expenses, revenue shortfalls. The problem this
2 year is we are facing a number of uncertainties that are
3 likely to impact us all at once and could substantially
4 overwhelm the capacity of the operating reserve to fund
5 these unforeseen expenses.

6 I have a number of lines in this chart. The dark line
7 shows what we had expected going into this year. The line
8 that starts out above that and goes down is our current
9 forecast. And based on a number of assumptions that we
10 think are likely at this time, the ISO could, without other
11 actions, be in position as early as this summer where we
12 don't have sufficient funds to operate.

13 The most significant assumption in here is that our
14 revenues will be impacted over the next three months, and we
15 will not collect our administrative charge in full.

16 MEMBER WILLISON: Other than your capital budget, are
17 you taking other actions to minimize expenses?

18 MR. LEIBER: We have instructed all of our officers to
19 look at all expenses that come across their desks very
20 closely, to defer any discretionary expenses until such time
21 as our finances are more certain. For the most part, we
22 don't have a tremendous amount in the way of discretionary
23 expenses. Our largest single expenses are staff costs. So
24 as long as we want to pay the people, those are ongoing. A
25 number of large contractual commitments. So there is not a

1 whole lot in the way of discretionary expenses that can be
2 postponed. But at the end of the presentation I will talk
3 about some other responses that we are contemplating.

4 The real source of our problem is shown on the bottom
5 of Page 4. This chart of cash clearings. This is the
6 amount of funds that come through the ISO over the past
7 several months. One of the significant protections that we
8 have to ensure that we will have sufficient funds to operate
9 our administrative charge receives a priority against any of
10 the other funds that flow through the ISO.

11 So to the extent that any money comes in we get to
12 first take our management charge off the top. The problem
13 has been in the past three months the collections through
14 the ISO have so decreased that they have just barely covered
15 grid management charge. In fact, in the month of April our
16 costs were 25,000,000. We only received a total of
17 31,000,000 of 850,000,000 that was billed. If that trend
18 persists or gets any worse, we do face significant
19 shortfalls.

20 Turning to Page 5, EOB staff requested that we address
21 the impact of the PG&E and PX bankruptcies on the ISO
22 finances. As far as the PX bankruptcy, there has been no
23 direct impact on our finances to date. Again, because the
24 PX is a passthrough. They have continued to remit GMC funds
25 that they have received from the utilities. And today. As

1 I say, we have collected our grid management charge in
2 full.

3 The one significant problem we are facing is a number
4 of creditors look at the PX bankruptcy and look at us. We
5 were created at the same time and ask the question is that
6 in the ISO's future. We are able to mostly distinguish
7 between the two entities. That nonetheless remains an
8 issue.

9 MEMBER WILLISON: So an indirect cost, I know on your
10 written reports you talked about the question about being
11 able to get a signoff from the auditors, and if you can't do
12 that that likely will further impact your credit costs?

13 MR. LEIBER: That is absolutely true. We have been
14 trying to put together a good story. There are number of
15 uncertainties. Spend a lot of time with creditors because
16 at the end of the day there are risks out there that we do
17 find troubling.

18 In terms of the PG&E bankruptcy, the most significant
19 upcoming impact we see is that we think we will face a
20 shortfall in GMC collections for the months of February and
21 March. We collect at the end of this month and in May. It
22 is hard to predict exactly at this time how much we may
23 collect. We could see a revenue shortfall of 15- to
24 25,000,000 related to PG&E over the next couple months.
25 Again, we do have the ability to collect the grid management

1 charge from any other funds that flow through us. But as
2 the last chart illustrated, we anticipate that the funds
3 will essentially dry up, potentially slow to a trickle due
4 to the defaults.

5 One possible response to this would be we do have the
6 ability to revise our rate going forward to make up for any
7 shortfalls we experience. So to the extent we don't collect
8 everything we need to in the next month or month thereafter
9 we would just revise our rate for the remainder of the year.
10 For that to be effective we would have to continue
11 collecting at some point in the future.

12 Post April 6th, after the bankruptcy filing, it is our
13 expectation that PG&E will pay the grid management charge.
14 We have worked with their attorneys to have our billings
15 afforded the status of an administrative charge which will
16 allow it to be paid from the bankruptcy estate.

17 Finally, the last slide here, another significant issue
18 remains as to who is going to pay the grid management charge
19 going forward. As I touched on briefly, grid management
20 charge currently is paid by both the users and suppliers of
21 power. The users touched on PG&E circumstance. Edison we
22 hope will resume payments soon.

23 In terms of the suppliers, the biggest problem we face
24 there is they are taking the position that they are not
25 going to pay as long as we do not pay them, which is not

1 permissible under the terms of our tariff, but nonetheless
2 they have done that so far.

3 Finally, we are currently trying to clarify how DWR is
4 going to work with the ISO in terms of the billings and in
5 terms of exactly the formal nature of their relationship
6 with us. There is question of AB 186 should be interpreted.
7 It is my understanding that the legislative intent behind
8 that was that DWR would actually be procuring the power and
9 selling it directly to end users. And accordingly, they
10 would be the load serving entity. If that is the case,
11 potentially they should be paying the grid management
12 charge.

13 Another interpretation. I believe their current
14 interpretation, the way this is actually working, they have
15 been making purchases and assigning them to the utilities.
16 That leaves a question as to who is responsible for our
17 grid management charge, somewhat up in the air at this
18 time. That is one of the issues we are working with to
19 clarify.

20 Finally, just to summarize, our operating reserve is
21 the vehicle in which we can see ourselves through some
22 uncertain times. The problem with this is we have a lot of
23 impacts coming all at once, and potentially the operating
24 reserve won't be able to observe all of them at once. Our
25 responses to date have been to really keep a handle on costs

1 as best we can, both operating costs and more specifically
2 the capital expenditures. As I said, cut the budget to
3 roughly 60 percent of what we had originally forecast for
4 this year. We will adjust the grid management charge rate
5 as appropriate. We are going to try to identify alternative
6 funding sources both working with DWR in terms of who would
7 be responsible for GMC. And if the financial picture
8 improves somewhat, we hope to approach banks to establish a
9 line of credit to hold us over.

10 Of course, we'll keep this Board apprised of our
11 status.

12 MR. ROBINSON: In addition to looking at the impact of
13 the PG&E bankruptcy on our financial picture, we also have
14 begun looking at potential impacts on operations. The good
15 news is that 12 days of operating history haven't suggested
16 any particular impact on our ability to get enough supply to
17 meet the demand.

18 There are three areas on a going forward basis where we
19 at least have some questions or things that needed to be
20 pointed out. They basically relate to DWR. They relate to
21 qualifying facilities, or QFs, and they relate to operating
22 and maintenance of the transmission and distribution assets
23 of PG&E.

24 Turning first to DWR, as this Board is probably aware,
25 the FERC about a week ago issued an order that essentially

1 requires that all purchases made by the ISO as well as all
2 emergency dispatch instructions be financially supported by
3 a creditworthy party. The impact of that is that we need to
4 find someone who would step in and provide that financial
5 support.

6 We have had discussion with DWR, and they have agreed
7 to back transactions based on bids that they need to be
8 reasonable. They intend to conduct essentially a
9 reasonableness review on a case-by-case basis, and tell the
10 ISO whether or not they view a transaction to be
11 reasonable. In the event that they do not find a
12 transaction to be reasonable or bid to be reasonable, then
13 it is our intent not to accept that bid. And the only thing
14 that needs to be clear about that, in the event that we
15 don't have sufficient supply, at that point we would be
16 placed in a position of having to curtail load. That is one
17 potential impact.

18 MEMBER WILLISON: Does that dictate how DWR would be
19 seen with regard to who pays the grid charges in terms of
20 through the financial backer more than just an assignment?

21 MR. ROBINSON: That particular issue, depending upon
22 how you resolve it, might have some implications to whether
23 or not -- if DWR is indeed the load serving entity, at least
24 in theory we would pass on whatever bill we have for our
25 emergency purchase goes on to DWR. They would be a

1 creditworthy entity. It is not entirely clear exactly
2 whether or not DWR is legally a load serving entity. AB 1X
3 was the enabling legislation, seems to have a clause that
4 indicates that nothing in AB 1X is intended to relieve the
5 IOUs of
6 the responsibility to serve, the obligation to serve. But
7 that is a legal question that needs to be resolved.
8 Depending on how it is resolved, it could have an impact on
9 this issue.

10 With respect to the qualifying facilities, you can look
11 at it both on a post petition and prepetition basis. On a
12 post petition basis I speak on a bankruptcy, and he may not
13 be here. So at least I can sound like a bankruptcy expert.
14 But my understanding is on a post petition basis the QFs
15 can run and expect their bills would be paid and given
16 administrative priority.

17 The difficulty is that we have heard that certain QFs
18 have notified their gas suppliers that they will not provide
19 any gas for ongoing transactions unless the past debts have
20 been satisfied. Of course, because PG&E's is now in
21 bankruptcy those past debts to some extent are in limbo for
22 some period of time. So that can have an impact in terms of
23 how many QFs can run.

24 For the past several weeks we have seen QFs capacity of
25 about 3,000 megawatts. There is about 6,000 that is

1 available, so we are running at about 50 percent QF
2 capacity. I am told by the grid managers that the impact of
3 that is not simply on the inability to get enough energy,
4 but that the QFs also serve an important function in terms
5 of stabilizing the grid voltage support, a bunch of other
6 terms, probably out of my debt in explaining. QFs are an
7 important resource, and we do have this one issue.

8 The last item is operating and maintenance of the
9 assets, the distribution and transmission assets. It would
10 be our hope that PG&E would be in a position to keep on
11 staff qualified personnel necessary to run their own
12 generation and to do the upgrade and maintenance, and they
13 would continue to operate their assets in a prudent manner,
14 using prudent utility practices. But, of course, with a
15 bankruptcy of this type there is also a question as to what
16 extent they will be in that position.

17 My understanding is that, for example, the capital
18 improvements that that would require additional process
19 before the bankruptcy court. So, for example, if there were
20 a path 15 upgrade that was needed, to some extent that may
21 become subject to a bankruptcy proceeding.

22 MEMBER WILLISON: Staff have any questions?

23 MR. HEATH: Lots, but no.

24 MEMBER WILLISON: Thank you both for the update.

25 Your next market analysis and emergency report.

1 MR. CASEY: Good afternoon. I am Keith Casey, ISO
2 department of market analysis. And I would like to provide
3 you with a brief overview of the market performance for the
4 past couple months, beginning with the energy market and
5 then briefly reviewing the performance of the ISO facility
6 service additional management market.

7 Starting with the energy market --

8 MEMBER WILLISON: Could I interrupt you for just a
9 second? Just as we do a little time management. We are
10 probably going to want to have some comments about
11 preparations for summer 2001 and then just comments, so if I
12 will ask you to hold your report to five minutes, I'd
13 appreciate it.

14 MR. CASEY: Sure.

15 Beginning with the energy market for the past few
16 months, as we are all painfully aware, despite of having
17 significantly lower loads the past couple of months,
18 February and March, we still see extremely high, real time
19 energy crisis. Some of the primary drivers for these are
20 the high natural gas prices, tight supply conditions, namely
21 driven by low hydro ability. We still have significant
22 amount of units out of the system. We are still lacking in
23 imports. Some significant other factors are certainly the
24 financial uncertainty surrounding payment to sellers of
25 energy in the California market. And the final element

1 being that we continue to see our monitoring of the market
2 significant exercise of market power by major energy
3 suppliers.

4 Just in terms of the high level overview of the average
5 energy costs the first chart you see in your handout
6 compares total system loads to average energy costs. And
7 what you basically see is the loads that are shown as
8 columns in the chart, and despite having significantly lower
9 loads in the last two months on the chart, February and
10 March, our average cost of real time energy has exceeded
11 \$300. So we continue to see very consistent and excessive
12 prices on the energy market.

13 The next two charts just give you an overview of our
14 system loads, comparing them to the same month last year and
15 all I will say on these two charts are that system loads for
16 the past two months have been significantly below the same
17 months last year. Some of that may be due to changes in
18 temperature condition compared to last year. We may be
19 seeing a conservation effect here as well.

20 I wanted to point out our findings here are consistent
21 with some statements the governor made earlier this week.

22 The next two charts summarize our real time energy
23 costs. Really in coming up with the total cost consistent
24 with the number of components and what this chart provides
25 for you, I won't go into all the details in the interest of

1 time, what you essentially see is the amount of energy we
2 are buying in real time below the soft cap; \$150 is the term
3 we are operating under is very small compared to what we are
4 paying as bid above the soft cap. And the second important
5 thing in this chart is that you will see that most of the
6 energy we are purchasing is outside of our real time
7 market. Most of our real time energy needs are being
8 procured through out-of-market purchases or real time
9 bilateral transactions that CDWR arranges.

10 The next page, this chart you may have seen before. It
11 is put out by the Department of Market Analysis. It
12 essentially breaks down the average energy prices into what
13 portion you could expect from a competitive market and what
14 portion is above the competitive baseline. And I know it's
15 hard to read in black and white. But essentially the darker
16 shaded area in the column indicates the portion of the
17 average energy price that is attributed to market power,
18 according to the department market analysis estimates.

19 So what you are seeing is that over the last few months
20 we still see a significant portion of those average prices
21 that by our analysis appear to be above competitive levels.

22 The next chart just shows you our imports and export
23 patterns for February and March, comparing them to the same
24 months last year. The key thing to notice there is the
25 amount of exports we are seeing have gone up significantly

1 this year compared to the same months last year.

2 The next charts are showing you natural gas prices,
3 comparing California prices to Henry Hub prices. And, you
4 know, again you see that California still maintains its
5 significant deviation of what is considered industry
6 standard, that being Henry Hub price. The other thing to
7 notice is that the Southern California prices, which are
8 shown on the bottom chart, continue to be significantly more
9 volatile and higher than the prices we see in Northern
10 California.

11 The next chart is just showing you what our sources of
12 energy are broken down by must take hydro imports and
13 other. I think that is fairly self-explanatory. I won't
14 spend time on that.

15 Ancillary services and congestion management.
16 Essentially we have on Page 8 a chart showing the average
17 ancillary service prices in the last two months. What you
18 see there is the prices are fairly similar for February and
19 March. We are seeing regulation averaging around 150;
20 spinning reserve averaging 50 to \$40. And replacement
21 reserve tends to be a bit higher, averaging over \$100.

22 The chart below that shows the ancillary service cost
23 as a percent of total energy cost. The interesting thing to
24 note there is the top line is actually these costs were
25 first year of operation. The line that you see for the

1 period December through March that is on the lower portion
2 of the graph is in our second year of operation. Ancillary
3 service cost as a percent of our total energy cost for this
4 year are actually between our first and last year of
5 operation.

6 In my mind that is a statistic that is deceiving when
7 you consider our energy costs, nonetheless it is there.

8 The next series of charts just show you congestion
9 patterns for the last two months. The first chart shows a
10 comparison of congestion patterns for February of this year
11 to February of last year. The things to note about this
12 year is that with the demise of the PX we really have
13 suffered from a lack of adjustment bids, our congestion
14 management market, and that's been reflected in some
15 significant changes in the congestion patterns that we see.
16 Path 15 for February has been congested quite frequently as
17 a result of the lack of adjustment bids.

18 The other thing we are seeing that is of interest in
19 February is we are seeing export congestion. That is
20 partially driven by the fact that we are having more exports
21 this months than we have for the same months last year.
22 Also because we have less imports there is less counterposed
23 to offset those exports. So you are more apt to have
24 congestion. Again, you see basically the same pattern
25 occurring in March. Again, exports on the northwest paths

1 we see significant export congestion there. We also see
2 actually to a lesser extent congestion internal to the ISO
3 area.

4 And finally I just included a slide just for your
5 information of some major reports and analysis that the
6 Department of Market Analysis has done and filed with the
7 clerk on all these reports. If you don't have them already,
8 they are available on our website.

9 That is about it. If there is any questions.

10 MEMBER WILLISON: No. Thank you. It is always very
11 helpful to see information broken out the way you do.

12 Thank you very much.

13 Our final report today will be comments on corporations
14 for this summer.

15 Afternoon.

16 MR. SIEGEL: I am Tom Siegel. I am a senior compliance
17 engineer for the ISO filling in for Don Fuller.

18 Discuss a little while with you a briefing for our
19 demands response programs this summer. Our focus for a
20 demand response for programs is attracting new demand
21 response. We didn't feel that there was any reliability
22 benefit to simply converting existing demand response into
23 ISO programs command response customers. And we also see
24 market advantages to having a deeper level of response and
25 possibly anticipating ancillary response program.

1 We are also working closely with our air quality
2 officials to use, to gain access to backup generators as
3 tools. Our 2001 programs are participating A/S load
4 program, our discretion load curtailment program, our demand
5 relief program, as well as a variety of public information
6 programs that we intend to gather further conservation
7 efforts.

8 In our operation of the programs our discretionary load
9 program and our participating A/S load program are capable
10 of operating throughout the year, and our demand relief
11 program as seen as a summer only program operating June 1st
12 through September 30th.

13 On the fourth page we have a diagram of when we operate
14 these programs. And the diagram takes us through, continue
15 through normal operations with operating reserves exceeding
16 7 percent down at the bottom to stage three emergency with
17 operating reserves below 1 and a half percent.

18 Our programs are indicated by the arrows on that page,
19 and our ancillary program operates in the normal markets.
20 So generally operating with reserves exceeding 7 percent.
21 And our discretionary load curtailment program is also in
22 that range. Our programs for curtailing demand relief
23 program are after we have exhausted our interruptable modes,
24 but prior to when we go to firm load utilities.

25 In our participating A/S load programs, that is a

1 program where loads participate directly in our ancillary
2 services and help in our supplemental energy markets. The
3 ancillary service markets which loads are eligible for our
4 nonspin and replacement, and those markets would receive a
5 capacity payment if they successfully won in four market
6 options and energy payments if they are dispatched in real
7 time. And the supplemental energy, they would receive
8 energy only payment if they dispatched in real time.

9 I am not going to go through all the items listed on
10 that page, but I want to point out a few things. Basically,
11 that the program where the loads participate on par with the
12 generators. They are in the same dispatch stack that the
13 generators are. They are required to have scheduling
14 coordinators and bid into the market in an hourly manner as
15 the generators are.

16 We have slightly different metering and technical
17 standards for the loads than we do for generators for fairly
18 obvious reasons, I believe.

19 Currently, as per the CPUC directive we do not allow
20 interruptable customers to participate in the A/S program.
21 We don't anticipate the CPUC change in their directive
22 anytime soon. That is a fairly significant number of
23 resources that could be participating in the market that are
24 not.

25 Currently the only customers that are actually

1 participating under this standard are for the Department of
2 Water Resources and the Metropolitan Water District.

3 And our Discretionary Load Curtailment Program on Page
4 6, our objective in that program is to attract smaller loads
5 and loads that require total control for their curtailments.
6 And we developed this program as an alternative to some of
7 the more restrictive technical standards that we have in
8 some of our other programs. We expect that the customers
9 would sign up with aggregators and that those aggregators
10 would sign agreements with the ISO to provide a pool of end
11 use customers to the ISO for curtailment purposes.

12 We expected that this program would be implemented at
13 about the time when our reserve margin is dipping below 7
14 percent, about the time that our ancillary service market is
15 being exhausted.

16 The program we would use Internet page notifications to
17 offer or to accept and provide service, provide offerings to
18 the -- from the load aggregators and those load aggregators
19 would then firm up the offering to the ISO. Our current
20 price for that program is set at \$350 per megawatt hours,
21 although we believe that we could extend that to the 500 per
22 megawatt range if necessary.

23 MEMBER WILLISON: Extend it to what?

24 MR. SIEGEL: If we felt that it was necessary to gain
25 additional participation. The program, as I mentioned

1 earlier, is operating on -- would be operating on a
2 year-round basis and we released an RFP -- it says April
3 6th, but I am not sure that is the exact date. But we are
4 anticipating bids in the coming weeks for potential
5 participants in the programs.

6 This program is very similar to voluntary demand
7 response program that was created by the CPUC as well, and
8 the same triggering mechanisms would be triggered and
9 curtailed on the same basis.

10 MEMBER WILLISON: Can I ask you just to highlight.

11 MR. SIEGEL: The demand relief is a program that is --
12 that we implement immediately prior to firm load
13 curtailment. It would be our last resort prior to going to
14 firm load curtailment. Last year we had a program that was
15 in the 65 to 70 megawatt range.

16 The highlights of the program are that it operates
17 summer only, from 11 a.m. till 7:00 p.m. Our reservation
18 payment for the program is \$20,000 per megawatt month with a
19 performance payment of \$500 per megawatt hours. We would
20 also be seeking for -- the program's currently limited to 24
21 hours of use per month, but we have a provision in for
22 voluntarily participation beyond that 24 hours should that
23 be necessary.

24 We are looking at creating two tiers of participation,
25 one with loads that are not using backup generators and a

1 second tier for loads using backup generators to provide
2 backup generation.

3 The tier two, the loads with backup generators, we
4 issued a number of requests for bids under that program.
5 Our most recent one we withdrew and currently are working
6 closely with air quality management districts, Cal EPA and
7 California Air Resources Board to modify that program, to
8 get consistent with their needs as well as with our needs.
9 We are planning on reissuing fairly soon.

10 We had -- in our first round of RFP we had 596
11 megawatts that were accepted and approved by the board. We
12 have issued a second round for loads, and responses to that
13 are due on May 1st. We are anticipating a fairly
14 significant response to that as well.

15 As I mentioned, our third round will be a revised
16 backup generator program that we are currently finishing up
17 right now.

18 Our public communications, we are looking to extend our
19 power watch notifications, make the notification more
20 specific, provide greater information to what sort of
21 specific activity customers can take to curtail the demand.
22 We are also looking for a variety of notification that can
23 go on our home page and exploring other Internet basis of
24 communication.

25 MEMBER WILLISON: Staff?

1 MR. HEATH: No questions.

2 MEMBER WILLISON: The lack of questions doesn't apply
3 to lack of interest in the things that you are doing. This
4 is a hugely important work for all of us for the summer and
5 beyond.

6 So, thank you.

7 MR. SIEGEL: Thank you.

8 MEMBER WILLISON: Let's invite any comment from our
9 audience here.

10 Hearing none, we will move and approve adjournment of
11 the meeting here.

12 Thank you very much.

13 (Meeting adjourned at 2:35 p.m.)

14 ---oOo---

15

16

17

18

19

20

21

22

23

24

25

REPORTER'S CERTIFICATE

STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

I, ESTHER F. SCHWARTZ, certify that I was the
official Court Reporter for the proceedings named herein,
and that as such reporter, I reported in verbatim shorthand
writing those proceedings;

That I thereafter caused my shorthand writing to be
reduced to typewriting, and the pages numbered 3 through 57
herein constitute a complete, true and correct record of the
proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate
at Sacramento, California, on this 23rd day of April 2001.

ESTHER F. SCHWARTZ
CSR NO. 1564